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C O N F I D E N T I A L SECTION 01 OF 02 BAGHDAD 003956

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SUBJECT: FINANCE MINISTER JABR ON BUDGET ISSUES, GE
GENERATORS AND THE DFI

Classified By: Economic Minister Counselor Marc Wall for reasons 1.4(b)
and (d)

11. (C) Summary: At an informal dinner on December 12 with CETI and the newly-arrived Treasury Attache, Finance Minister Jabr described a "shadow budget" that would trim expenditures by USD 8 billion by noting that "we are in a crisis." He noted that while he would facilitate the sale of General Electric (GE) generators this year, next year the budget will be extremely tight, and he does not want to overburden it and lose gains in re-establishing Iraq's creditworthiness. He offered ideas on the extension of the development fund for Iraq and announced that he is having the Trade Bank of Iraq organize a banking conference in Baghdad in mid-January. End summary

"We are in crisis"

12. (C) With these words Finance Minister Jabar began a discussion of Iraq's budget difficulties. With the sharp decline in the price of oil, well below the USD 62.5 used for the 2009 budget, and a further decline in oil exports to 1.7 million bpd in November, the 2009 budget as approved by Ministers increasingly looks unrealistic. Jabr explained that to prepare for the discussion in the Council of Representatives (CoR), he has gone over the budget, cutting "a bit here and a bit there." What he called his "shadow budget," would reduce expenditures to about USD 59 billion, USD 8 billion less than originally planned. Expenditures on investment (USD 14 billion according to Jabr) and salaries were not cut. Reducing the latter would spark "riots like in Greece," he remarked. The budget assumes oil exports of 2.0 million bpd, based on securing 300,000 million bpd from Kurdistan, priced at USD 50 a barrel. The exchange rate would be the same as in the original budget, IQD 1180 Iraqi to the USD, according to Jabr. The Minister does not intend to submit this shadow budget to the Council of Representatives, but keep it in reserve and use it as the debate unfolds. He noted that the CoR has the authority to revise the budget, but only by cutting expenditures, not increasing them.

13. (C) Jabr railed against the inability of the Oil Ministry to increase production. Inviting international oil companies would be the best way to step up production, admitting that this would take some time to bring on stream. The Oil Minister initiated a bidding round for development of oil and gas resources, but this will come too late to help next years budget. Moreover, while more oil will be pumped, the infrastructure to process and transport it is fragile.

GE Generators

14. (C) When asked about whether he would authorize funds for the GE generators, Jabr responded that once the Council of Ministers approves the purchase it would be "no problem"

(with a snap of the fingers). However, he went on to explain that the MOF could release the USD 400 million for down payment quickly and then perhaps issue Treasury bills to the Central Bank of Iraq for one or two billion dollars. The Ministry of Electricity's budget for 2009, however, would be very limited, in the USD 800 million-USD 1 billion range. He said that he did not want to over commit the budget, running the risk of non-payment. Doing so, in his opinion, would risk losing the gains Iraq has been making to re-establish its creditworthiness.

15. (C) Jabr complained that the Minister of Electricity should not have brought three large contracts (GE, Siemens, and another contract) at the same time at year's end. These should be spaced, so that they can make the necessary purchase of one before committing resources for the next one. Trying to do them all at once risks not being able to do any, he added.

Banking Conference

16. (C) Jabr would like to hold a banking conference in mid-January, to stimulate interest in investing and doing business in Iraq. He has asked the Trade Bank of Iraq to organize the conference. He asked the USG to assist in attracting U.S. banks to participate in the event.

DFI

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17. (C) Jabr declined the Prime Minister's invitation to attend the UN's discussion on extension of the immunities for the development fund for Iraq (DFI). However, he said that he would send two suggestions to the Iraqi Foreign Minister who is in New York. One would be to have the extension for three rather than one year. This timeframe would be consistent with the Security Agreement and the International Compact for Iraq. The second would be to enable a DFI to be placed in Europe for payment of bills denominated in euros. We explained that the best chances for an extension was to keep the extension simple, with no added features.
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